

[REDACTED]

[REDACTED]

[REDACTED]

JUN 15 1991

Gentlemen:

Your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code has been considered.

The information submitted discloses that you were incorporated on [REDACTED], to promote the design, development, study and play of simulation games, including board games, war games, fantasy, science fiction and role-playing games, sports games, computer games and miniatures, as an educational, recreational and social activity; to coordinate the activities of groups and persons in the region having similar interest; to organize and sponsor regional and national conventions for such groups and persons; and to do any and all other things necessary or proper in connection with or incidental to any of the foregoing. You are a nonmembership corporation.

Your funds will be derived primarily from fees for services rendered. Since you are a nonmembership organization, all your funds will be from nonmember sources.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

"(7) Clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Revenue Ruling 67-423, 1967-2 Cumulative Bulletin, 204, holds that the word "club" was intended to apply to organizations having individual members.

Public Law 94-568 sets the limitation on the extent to which nonmembers income is permissible for social clubs exempt under section 501(c)(7) of the Code. Generally, no more than 15 percent of gross income can be derived from the use of club facilities or services by the general public.

Based on the information presented, we have concluded that you do not meet the requirements for exemption as a social club described in section 501(c)(7) of the Code.

Since you have no members, you do not meet the basic requirements of a "club". Your receipts from nonmembers exceed the 15 percent limitation set out in Public Law 94-568. In addition, you advertise your services to the general public which is prima facie evidence that you are engaging in business and are not operated for pleasure, recreation, or social purposes.

Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Code, and you are required to file income tax returns on Form 1120.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible. You should also file the enclosed Federal income tax return(s) within 30 days with the Chief, Employee Plan/Exempt Organization Division 1100 Commerce, Dallas, Texas 75242.

Sincerely,

[REDACTED]  
District Director

Enclosure:  
Form 6018  
Form 1120  
Publication 892